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TAGS: [PGOV](#) [PREL](#) [ECON](#) [KPAO](#) [EAID](#) [LO](#)
SUBJECT: SMER-SNS-HZDS: WHAT DOES IT MEAN?

REF: BRATISLAVA 527

Classified By: Ambassador Rodolphe M. Vallee for reason 1.4(b) and (d).

11. (C) Summary: The "worst case scenario" government of Smer-SNS-HZDS is now a certainty. We can expect many more challenges in advocating U.S. policy goals under a Fico-led government than during Mikulas Dzurinda's tenure, particularly on controversial issues such as the war in Iraq or support for Cuban and Belarussian democracy. Fico has announced his preference for a Eurocentric foreign policy, is skeptical about Slovakia's international activism, and has a history of anti-American statements. Some economic reforms implemented by the Dzurinda government may be slowed or overturned. Nonetheless, Slovakia's booming economy and EU structural funds will buffer economic changes. The rumored selection of a serious professional diplomat to be Foreign Minister may be a positive sign. Slovakia's media and NGOs will watch the government closely and will not hesitate to point out its flaws. We plan to aggressively engage the new government on our policy priorities, and, as necessary, ramp up our public outreach activities to counter any negative steps on foreign and domestic issues and cement the positive views of the U.S. among the Slovak public. End summary.

12. (C) Introduction: The Smer (Direction) party's formation of a governing coalition with the Slovak Nationalist Party (SNS) and Movement for a Democratic Slovakia (HZDS) -- as it said June 28 it intends to do -- will have policy implications for U.S. goals both within Slovakia and beyond its borders. It is clear that Smer Chairman Robert Fico chose the path of least resistance in picking these coalition partners. Neither SNS nor HZDS has a well-developed policy program, both are desperate to be in government after eight years out, and neither will pose resistance to Smer's vision for the country. The proposed division of cabinet positions -- 11 for Smer, 3 for SNS, and 2 for HZDS -- and the fact that Smer will have both the PM and the Speaker of Parliament posts, clearly show that Smer will exercise all control in the future government. We can be grateful that neither Slota nor Meciar will be in the cabinet, and we will not immediately have to face the tough decision of how to deal with them, at least as government officials. Fico knows that the international community is watching closely with concern, as are Slovak media and NGOs. Most journalists are appalled at his choice of partners, and we can expect critical press coverage. We hope this means the party will do its best to govern responsibly, which admittedly will be difficult since the party lacks real experts with experience in governing. On the other hand, Fico's intent to pursue a Eurocentric rather than Transatlantic foreign policy orientation, and populist tendencies we have occasionally seen in Fico's rhetoric and behavior, are cause for concern. We have prepared the following analysis of how our MPP goals may be affected by the new governing coalition.

¶3. (C) The U.S. Embassy has engaged Fico for many years; he was an International Visitor a decade ago. His political outlook has always been left-of-center and pro-Russian. Nonetheless, there is one anecdote, relayed to us by Fico's most trusted lieutenant, which may contribute to his antipathy toward the U.S. Based on a private conversation with a former U.S. Ambassador, Fico apparently was led to believe the U.S. had information pointing to corrupt activities by Finance Minister Ivan Miklos. Fico announced this publicly. When Miklos sued for libel, Fico summoned the former Ambassador to his defense, asking the Ambassador to release the information. The Embassy refused on the grounds of diplomatic immunity. The intense hatred between Fico and Miklos can be traced back to this incident, and we suspect Fico still harbors a sense of having been betrayed by us. In Ambassador Vallee's next private meeting with Fico, we plan to address this history, clear the air, and hopefully make a fresh start.

Transformational Diplomacy and Foreign Deployments -----

¶4. (C) GWOT/Iraq: Smer released a statement during the campaign promising to make a decision on withdrawing troops from Iraq as soon as it formed a government. Smer MP Boris Zala later told the DCM, "We will have to keep our promise." SNS Vice-Chair Anna Belousova told media 6/29 that SNS wants to pull troops from Iraq as early as possible, and no later than January 2007. She argued that keeping Slovak "grown-up children" there makes Slovakia vulnerable to terrorist attack. We have told Smer leaders that we do not want to be blindsided again and that we expect to be able to discuss any potential decision by a Smer government beforehand. Smer number three Pavol Paska said we would. We also told Smer they needed to consult the Iraqi government before acting. We are prepared to engage the new government immediately, in coordination with the Iraqi ambassador resident in Vienna, to encourage continuity of Slovak engagement in Iraq. We will also intensify dialogue on the global threats of terrorism and its links to organized crime. There has been no threat to disengage from Afghanistan or other foreign deployments. In fact, MOD staffers are preparing a contingency plan to present to the new Minister of Defense, which would redeploy any soldiers taken out of Iraq to Afghanistan. All three parties have vowed to meet Slovakia's commitments to NATO and the EU, and we would expect military reform to continue apace.

¶5. (C) Support for Transformational Democracy: The Dzurinda government actively supported NGOs engaged abroad and was a true believer and practitioner of transformational diplomacy. HZDS and some within Smer remain suspicious of NGOs that "were all formed to oppose Meciar." SNS simply does not see the need for engagement abroad. However, Smer vice-chairmen like Pavol Paska (who headed the Foreign Affairs Committee in Parliament) and Robert Kalinak (head of the Defense and Security Committee) have a more modern world view. Smer will control the MFA. If former-Secretary General of the OSCE Jan Kubis becomes Foreign Minister as is rumored, we could expect continued support for Slovakia's transformational diplomacy activities abroad. If the serious Kubis -- now serving as EU Special Envoy for Central Asia -- is not named, we would have additional concerns. We can predict that a Fico government would not be as active in supporting Cuban dissidents as the former government. Likewise, Fico would be less willing to ruffle Russian feathers by engaging heavily on regime-change in Belarus or NATO membership for Ukraine, although support for structural transformation and modernization in those countries could continue. We would expect engagement in the Balkans to remain strong based on Slovakia's historical relationship with the region. We are hoping that current Political Director Miroslav Lajcak would stay and continue his constructive approach. We hear he is willing to remain, at least if Kubis is Foreign Minister.

¶6. (C) Support of U.S. views: Whereas Dzurinda and FM Eduard Kukan were instinctively pro-American, Fico seems to have strong anti-American tendencies. One of the worst insults he had for Dzurinda, late in the campaign, was "lap-dog of America." He has also accused the U.S. of launching the Iraq War for oil. Fico has already made pronouncements that the new government's foreign policy outlook will be Eurocentric, and will take into account the opinions of other large powers like Russia and China, although his lieutenants insist Fico understands the value of good transatlantic relations. We will have to work harder on an issue-by-issue basis to persuade a Fico-led government to support U.S. initiatives on their merits. We are confident that the strong relationships we have at the working-level in the MFA and MOD will help greatly. Slovak views toward big-picture issues like UN reform are unlikely to change, and MFA professionals have already expressed their intention to continue close coordination on UNSC issues, regardless of the new leadership.

Minorities, Anti-Corruption, Organized Crime

¶7. (C) Integration of the Roma minority into health, education, employment, and political structures is a remaining challenge in Slovakia's own democratic transformation. Smer has promised a strong program to help Roma. On the other hand, the racist comments about the Roma community that SNS leader Jan Slota spouts on a regular basis only encourage further discrimination. Moreover, SNS will control the Education Ministry, where much of the discrimination against Roma begins. Members of all three coalition parties have strong anti-Hungarian sentiments, as well. The Ambassador is determined to meet any non-politically-correct statements about Roma or other minorities head-on, in both private and public messages. If needed, we will intensify our already-robust public diplomacy efforts to promote tolerance and appreciation for diversity.

¶8. (C) The Dzurinda government, especially under the leadership of the Christian Democratic Movement's (KDH) Minister for Justice Daniel Lipsic, made great strides toward fighting corruption and increasing transparency. New legislation on reporting assets, new special courts and prosecutors for high-level corruption and organized crime cases, better judicial administration, and new criminal and criminal procedure codes are among some of the former government's accomplishments. While the Dzurinda government was perceived by most Slovaks as corrupt, we can safely say that it was not nearly as corrupt as the government led by Meciar in the mid-1990s. It is therefore alarming that HZDS will control the Ministry of Justice in the next government. We will have to work hard, in concert with the NGO community, to keep the pressure on the Fico government to aggressively fight corruption and organized crime. We fear back-sliding.

Economic Reforms

¶9. (C) Smer appears to have chosen SNS and HZDS as coalition partners largely because of the lack of defined economic policy objectives; they will be easily persuaded to support Smer's core proposals. Smer's financial backers, its younger members, and the reality of international financial markets will, however, provide a braking mechanism on many of the taxation and regulation proposals floated by Fico during the campaign. Smer will be able to take advantage of Slovakia's high projected economic growth rates to undertake new social spending initiatives.

¶10. (C) Business Environment: Ironically, the political environment will make it easier for Smer to cut taxes than to raise them. According to embassy sources within Smer, Fico has already quietly dropped his dividend tax idea, on request of his financial supporters. The proposed special tax on monopolies and banks has not been seriously addressed by the party's think-tank apparatus, and also seems unlikely to move forward. Increased corporate taxes have been ruled out (see ref A- tax cable). Smer may try to make some

worker-friendly alterations to labor law on behalf of its supporters in organized labor, but changes to core labor flexibility laws are not under discussion. Fico himself has been mostly silent on economic policy, save for insisting on a two-tier value added tax, in which VAT on basic goods and services would be dropped from 19 to as low as 5 percent. This is a major priority for Fico, and it seems that he chose his current coalition in no small part because he will now clearly be able to deliver on this goal for his base voters.

¶11. (C) Euro Adoption: Sharp VAT cuts will cause a massive reduction in tax receipts at the federal level. If the GOS adopts a two-tiered VAT, increases social expenditures, and does not raise other taxes, it will be difficult for Slovakia to maintain a budget deficit under 3 percent, the target to which it must adhere in order to maintain eligibility for Euro adoption in 2009. Fico has inherited an almost ideal situation, however: several key manufacturing operations such as Kia, Peugeot-Citroen, and Johnson Controls are just starting production in 2006, with more major investors (Getrag-Ford) scheduled to begin major operations in 2007. (A further bonus: all of these producers already received most of their subsidy package up front; they're not leaving.) New production could bump economic growth to as high as 8% over the next two years, increasing tax revenues. Also, from 2007-2013, Slovakia will receive a dramatic increase in EU convergence funds, which will be used to cover transportation, education, and other needs. (see reftel B) EU funds). So Slovakia may well remain on schedule for Euro adoption, as Smer's financial supporters and younger members would prefer. Nevertheless, most local observers believe that the Smer-led government will try to delay the decision as long as possible, and that Euro adoption is unlikely until after the 2010 elections. This seems a reasonable prognosis. Moreover, it strikes us as extremely careless for Fico to have raised a delay in Euro adoption publicly even before he had the opportunity to accurately assess the situation.

¶12. (C) Who's in Charge? The new government's economic direction depends a lot on who will be running the Ministries of Finance and Economy. Names floated for the Ministry of Finance include SMER MPs such as Jan Telenor, CEO of the IT company Telenor, and outside experts such as ex-vice governor of the central bank Elena Kohutikova, and Vladimir Masar, who is ex-governor of the central bank and current Chairman of the Board at Deloitte-Touche Tohmatsu Slovakia. All of these names are just conjecture at this point, but, if true, would provide a certain degree of comfort to markets. The Ministry of Economy was expected to go to HZDS MP Tibor Mikus, an ex-CEO of Slovak Power Company with close ties to Fico, or SMER MP and former shadow economy minister Maros Kondrot, though the announcement late 6/29 that HZDS would get agriculture and justice rule out the first option.

¶13. (C) Energy: Smer supports the GOS effort to re-purchase Yukos, 49% shares in Transpetrol and continuity on this issue is likely. Without SMK in the coalition Hungarian oil company MOL, which owns the Slovnaft refinery, will lose some of its influence. Smer does have significant financial backing from the nuclear industry, and this coalition will likely promote development of the third and fourth reactors at Mohovce. Fico has long been a supporter of nuclear power for Slovakia.

Mutual Understanding

¶14. (C) It is clear that we will have to work harder under a Fico-led government and push our policy points more aggressively than was necessary in the past. In public diplomacy work, of course, having the host government defending the policy points is most effective. But if the government is not supportive of the policies, we will seek out third party spokespersons and use embassy personnel to carry more water. Fortunately, the Slovak public has fairly positive views of the United States, and this hopefully will be a deterrent to Fico's ability to exploit anti-Americanism for his political purposes. His attacks on the Iraq War fell

flat and had no resonance; they died after one day of media play. Meanwhile, we will pursue our planned robust program of person-to-person exchanges and cultural events to keep a positive image of the United States before the Slovak public.

VALLEE